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1965

THIRD  
ANNUAL  
REPORT

**NUMAC** OIL & GAS LTD.

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# NUMAC OIL & GAS LTD.

## THIRD ANNUAL REPORT

FOR THE PERIOD ENDING DECEMBER THIRTY-FIRST, 1965

REGISTERED OFFICE 11055 - 107 STREET, EDMONTON, ALBERTA

### *Board of Directors*

RALPH A. BARD, JR.  
Executive  
Chicago, Illinois

ALEXANDER N. MacIVER  
Barrister and Solicitor  
Edmonton, Alberta

LAWRENCE L. BELL  
Assistant General Manager,  
James Richardson & Sons, Ontario  
Toronto, Ontario

WILLIAM S. McGREGOR  
Executive  
Edmonton, Alberta

HADLEY CASE  
President, Felmont Oil Corporation  
New York, N.Y.

MARSHAL STEARNS  
Partner, T. A. Richardson & Co. Limited  
Toronto, Ontario

### *Officers*

WILLIAM S. McGREGOR  
President and Managing Director

DONALD F. BAKER  
Vice-President, Engineering

GUNNAR HAUGRUD  
Vice-President, Exploration

ELMO C. KELLAM  
Treasurer

C. R. S. MONTGOMERY  
Secretary and Vice-President,  
Lands and Contracts

ALEXANDER N. MacIVER  
Assistant Secretary

### *Registrar and Transfer Agents*

THE ROYAL TRUST COMPANY  
EDMONTON, MONTREAL, TORONTO, WINNIPEG, VANCOUVER

### *Auditors*

WINSPEAR, HIGGINS, STEVENSON AND DOANE  
EDMONTON, ALBERTA

### *Solicitors*

JACKSON, ARLETTE, MacIVER, HILL & KLINCK  
EDMONTON, ALBERTA

### *Listings*

TORONTO STOCK EXCHANGE  
VANCOUVER STOCK EXCHANGE

# NUMAC OIL & GAS LTD.

## TO THE SHAREHOLDERS:

Your Directors take pleasure in submitting to you this Third Annual Report of the Company together with audited financial statements as of December 31, 1965.

The Company achieved an income increase of 42% during the year just concluded when income, after deducting royalty, climbed to \$429,000 from \$301,000 in 1964, while cash flow increased from \$135,000 to \$290,000 for a gain of 115%. A further highlight of the year was attainment of a net profit position in the second full year of operation.

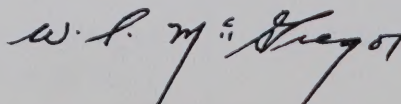
Investments in reservations and leases during 1965 increased by \$169,000, while development drilling costs and dry hole costs totalled \$263,000 and \$86,000, respectively. Riskier holdings have been farmed out to other companies on a basis calculated to give your Company the greatest benefit, while some have been developed directly by Numac. The Company has no indebtedness other than current accounts payable and working capital stands at \$1,778,000.

A significant exploratory diversion, new to your Company, is Numac's recent acquisition of 357,200 acres of mineral permits near Uranium City, Saskatchewan. These permits, in the opinion of Management, are well located and will allow the Company to prospect for all minerals but particularly uranium which will be in great demand and of undoubted future value as an energy source (see map).

The Company has interests in 920,100 acres of oil and gas leases, reservations and mineral permits. It will continue during 1966 to actively explore for and develop oil and gas mainly in Alberta and British Columbia and will carry on a comprehensive scintillometer and core hole program on the Saskatchewan uranium permits.

The Directors again express their appreciation to the employees for their devotion to the success of the Company together with the support and confidence accorded by stockholders.

ON BEHALF OF THE BOARD OF DIRECTORS



W. S. McGREGOR—President



# EXPLORATION AND DEVELOPMENT

Numac's 1965 program was directed towards increasing income and reserves through development and step-out drilling and acquisition of strategic acreage in the main Company areas of activity. At the same time, higher risk, but geologically potential holdings were expanded and farmout arrangements covering certain properties were completed or in negotiation stages at year end. Diversification into the mineral field was accomplished through recent acquisition of Mineral Permits in an area of potential uranium resources. The following will set out the more pertinent of these activities.

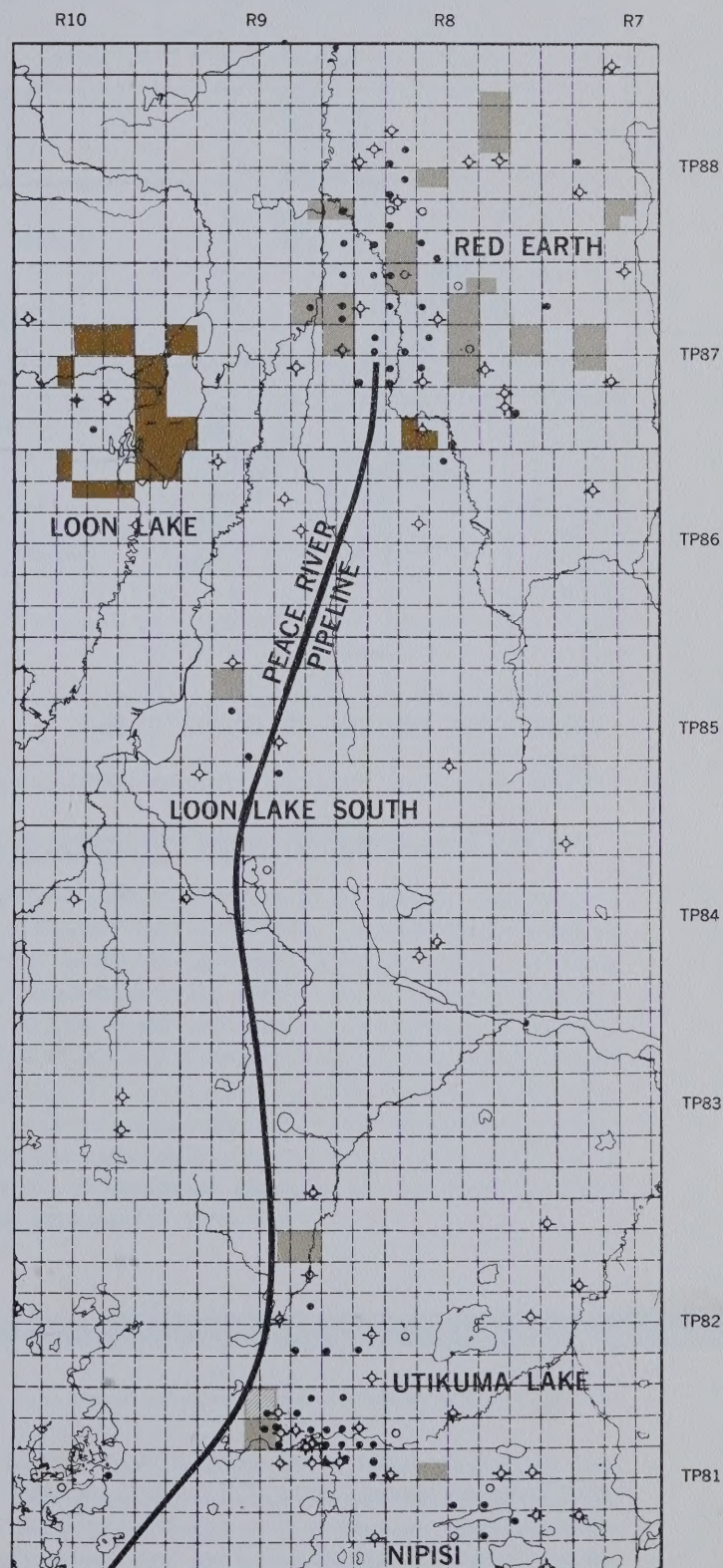
## RED EARTH-LOON LAKE-UTIKUMA LAKE AREAS

Numac added 10,560 acres to its holdings in the Red Earth-Loon Lake-Utikuma Lake areas (see map) during the year by the acquisition of 3,840 acres of Petroleum and Natural Gas leases and a 6,720 acre Drilling Reservation. The Company's 50% to 100% participating interest acreage position, including producing properties, now stands at 19,680 acres. Acquisitions totalling 1,920 acres in the Red Earth area are offset or close to Granite Wash oil production and are thus well located for our development program in that region. A 640 acre lease is situated approximately half way between the Red Earth and Utikuma Lake fields and is offset to the south by an oil discovery made in late 1965 by Chevron Standard Oil Company and associates. The discovery triggered considerable drilling in the area by the Chevron group and other companies, prompting Numac and its partner to gain a foothold in that particular play. Of the additional 1,280 acres purchased in the Utikuma Lake area, a half section is located less than one mile from the north end of the rapidly expanding Nipisi Gilwood oilfield.

Numac participated in three Granite Wash tests in the overall area during the year, two of which were completed as oil wells. At the date of this writing it is in the midst of a winter drilling program and present plans are to drill at least two more tests before spring break-up.

Further, negotiations are being finalized whereby a farmee must drill two Granite Wash tests, free to Numac, to earn a 50% interest in the Loon Lake Drilling Reservation (see map). One test will be drilled this winter while it is expected the second will be drilled next winter.

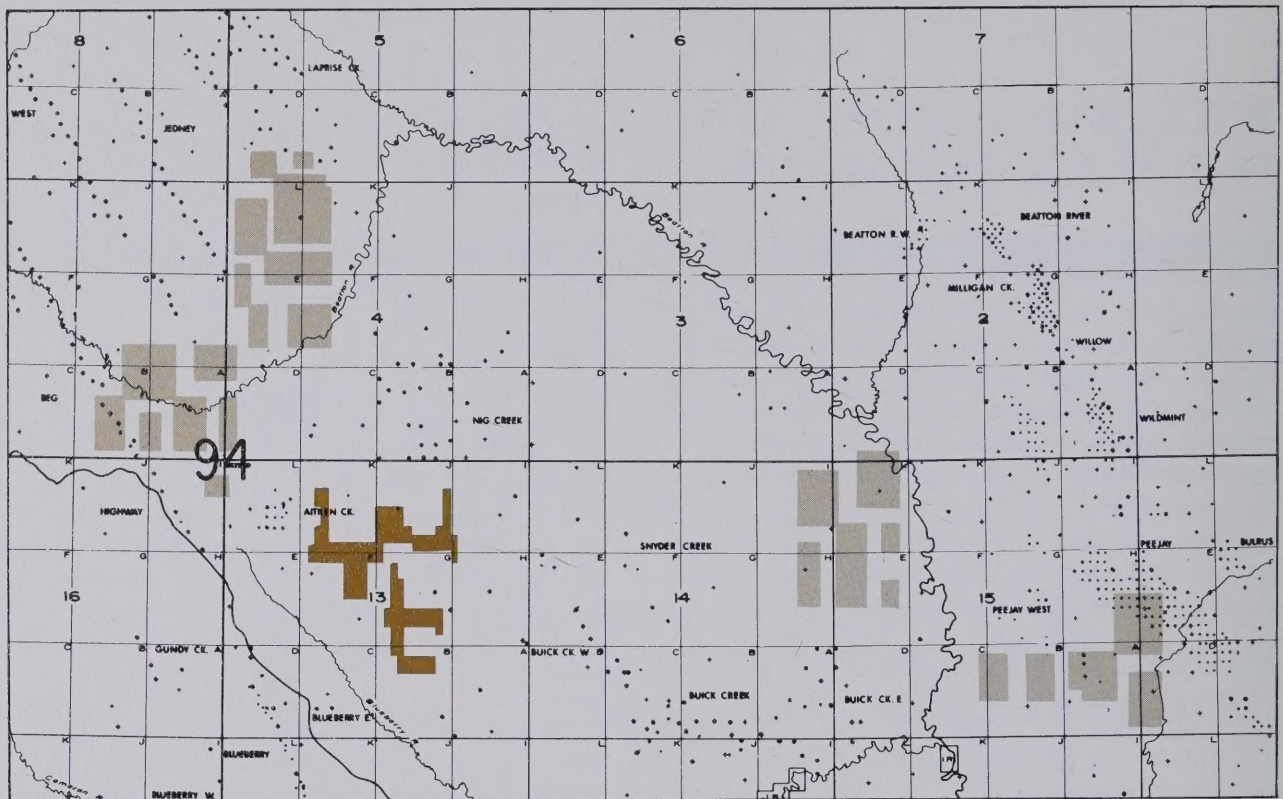
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20% 50% 100%

RED EARTH — LOON LAKE — UTIKUMA LAKE AREA





**NORTHEAST BRITISH COLUMBIA AREA**

(Drilling Reservation—20,262 acres)

Pine Pass Holdings (Numac—4% carried interest)
  Fireweed Area (Numac—50%)

## NORTHEAST BRITISH COLUMBIA

Several additional tests were drilled during 1965 at no cost to the Company and as a result, Numac's 4% carried interest in the Peejay-Nancy oil fields and the Beg-Sojer gas areas now includes 16 oil wells and 4 gas wells, as well as 95,624 lease acres. If present production from these areas is maintained it is probable that the carried interest will be paid off and the Company will start receiving income in the first half of 1966.

As will be noted on the map of the area, Numac holds an undivided 50% participating interest in a 20,262 acre Drilling Reservation lying between the Aitken Creek gas and oil field and the Buick Creek gas field and close to gas wells completed in the relatively new Fireweed area. It is thus positioned near gas wells on the west, south and east sides.

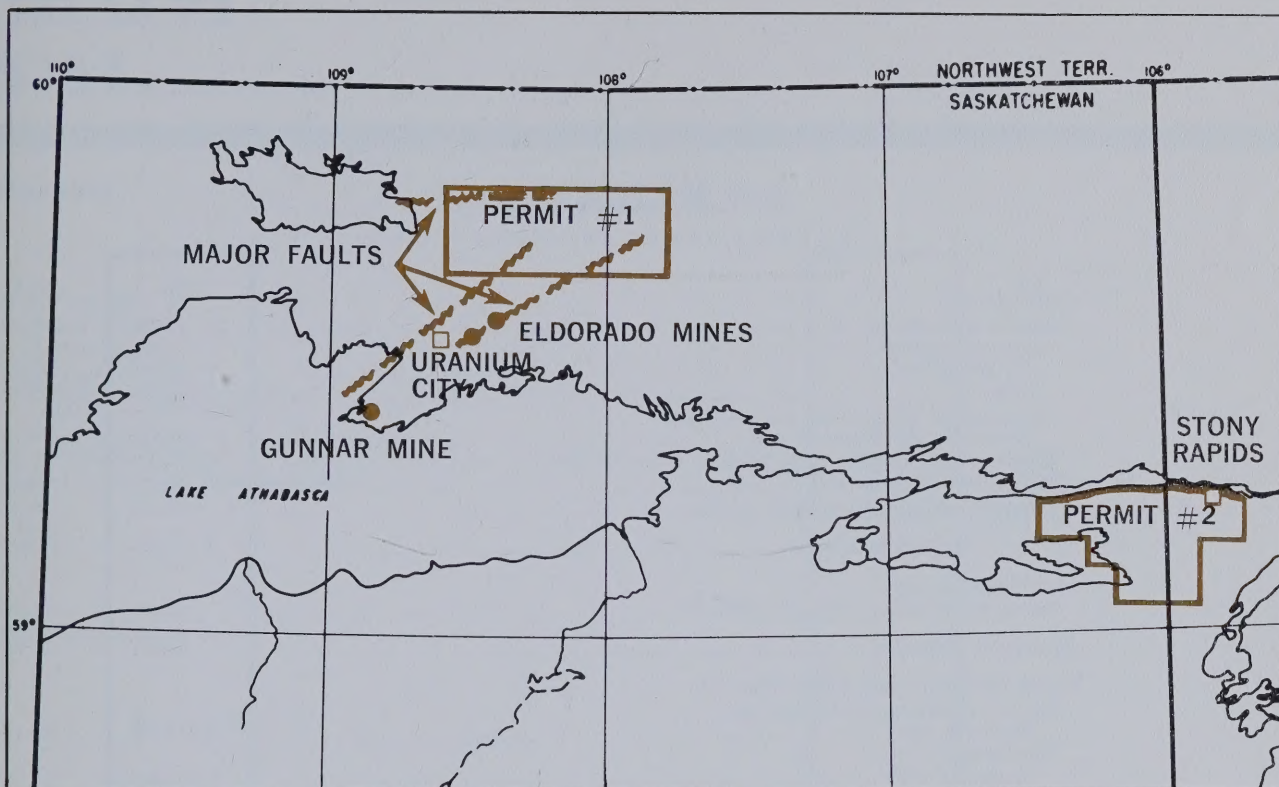
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## OTHER ACTIVITIES

It will be noted upon checking the map that the Company's acreage in the Red Earth-Loon Lake-Utikuma Lake areas is in close proximity or immediately offsetting productive acreage. Specifically, 16 quarter sections are offset by production or eligible for production spacing unit validation under the new Alberta Proration regulations. These new regulations, together with a reduction in crude oil pipeline charges from \$1.00 to 23¢ per barrel have enhanced Numac's overall position in the area.

Numac sold its participating interest in 4,960 acres in the CLAIRMONT AREA for a sizeable cash consideration and retained a 3% gross overriding royalty, as well as its full interest in a remaining 800 acre lease. Under an Option-Farmout Agreement the Company received a cash payment plus all records and interpretive information from a seismic program done on and around its GRANDE PRAIRIE lease spread. A 25% interest was sold for a profit in the two exploratory sections in the





#### LAKE ATHABASCA AREA

(Mineral Permits—357,200 acres) —Numac = 100% interest

### LAKE ATHABASCA AREA, SASKATCHEWAN

Your attention is respectfully drawn to the map showing 357,200 acres of Mineral Permits held by Numac immediately northeast of Uranium City and in the Stony Rapids area. Acquisition of these permits represents a diversification from the Company's principal business of exploring for and developing and producing oil and gas. However, indications of substantial increases in future world demand for uranium, together with our knowledge of the geology of this area, prompted us to take out these sizeable spreads which are favorably located for the finding of uranium. Plans are now being laid to carry out a comprehensive assessment program on the lands involved during the coming summer.

JUDY CREEK and East SWAN HILLS areas and in the 3,360 acre PEMBINA RIVER lease interests, leaving Numac with a net 75% interest in the three areas.

It is felt the Company's 100%-owned 270,242 acre permit spread in the MACKENZIE DELTA region was enhanced by a deep test drilled in the area by the B.A.-Shell-Imperial group. Though abandoned, that group has confirmed the occurrence of several significant hydrocarbon shows and existence of a deep sedimentary basin. Accordingly, we

are confident the promising area will see further activity.

Belly River production has been found offsetting certain of the above-mentioned Pembina River acreage and we are therefore optimistic about developments which could occur on that acreage during 1966. Also, we are pleased to report that the S½ of 22-72-4 W5M in the MITSUE AREA, in which Numac owns a 50% interest, is offset to the south by a Gilwood oil well. Other successful wells to the east and southeast would indicate chances for production on the Company tract area favorable.



# NUMAC

## BALANCE

### ASSETS

(With comparative figures)

|                                                                                       | 1965               | 1964               |
|---------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Current Assets</b>                                                                 |                    |                    |
| Balance at bank .....                                                                 | \$ 17,082          | \$ 54,464          |
| Accounts receivable .....                                                             |                    |                    |
| Oil production .....                                                                  | 40,133             | 36,525             |
| Other .....                                                                           | 174,710            | 74,486             |
| Term deposits, treasury bills and guaranteed<br>investment certificates—at cost ..... | 1,599,962          | 1,849,662          |
| Bonds—at cost (market value \$49,250 1964—\$49,250) .....                             | 50,000             | 50,000             |
| Accrued interest receivable .....                                                     | 30,357             | 33,600             |
| Materials and supplies on hand—at cost .....                                          | 50,190             | 88,294             |
| <b>Total current assets</b> .....                                                     | <b>1,962,434</b>   | <b>2,187,031</b>   |
| <b>Investments—at cost</b>                                                            |                    |                    |
| Shares in subsidiary company—Note "3" .....                                           | 150,000            | 150,000            |
| <b>Recoverable Deposits</b> .....                                                     | <b>69,081</b>      | <b>32,081</b>      |
| <b>Leases and Development Costs—Note "1"</b>                                          |                    |                    |
| Interest in petroleum and natural gas<br>rights—at cost .....                         | 1,475,239          | 1,306,004          |
| <b>Development Costs</b>                                                              |                    |                    |
| Productive wells .....                                                                | 874,466            | 611,702            |
| Capped gas and wells in progress .....                                                | 34,474             | 34,168             |
|                                                                                       | 2,384,179          | 1,951,874          |
| Deduct: Allowance for depletion and amortization .....                                | 184,340            | 85,014             |
|                                                                                       | 2,199,839          | 1,866,860          |
| <b>Fixed Assets—Note "1"</b>                                                          |                    |                    |
| Production and automotive equipment, furniture<br>and fixtures—at cost .....          | 213,328            | 162,514            |
| Deduct: Accumulated depreciation .....                                                | 33,148             | 16,895             |
|                                                                                       | 180,180            | 145,619            |
| <b>Organization and Incorporation Costs</b> .....                                     | <b>40,241</b>      | <b>40,241</b>      |
|                                                                                       | <b>\$4,601,775</b> | <b>\$4,421,832</b> |

See Auditors' Report dated February 10, 1966, attached.

### AUDITORS' REPORT

To the Shareholders of  
Numac Oil & Gas Ltd.

We have examined the balance sheet of Numac Oil & Gas Ltd. as at December 31, 1965 and the statement of profit and loss and deficit for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying balance sheet and statement of profit and loss and deficit are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1965 and the results of its operations for the year ended on that date. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and application of funds of the company for the year ended December 31, 1965.

EDMONTON, Alberta,  
February 10, 1966.

WINSPEAR, HIGGINS, STEVENSON AND DOANE  
Chartered Accountants.







## STATEMENT OF PROFIT AND LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1965

(With comparative figures for the year ended December 31, 1964)

|                                                                                                 | 1965              | 1964              |
|-------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Income                                                                                          |                   |                   |
| Proceeds from oil production and oil royalties,<br>less royalties paid .....                    | \$ 268,159        | \$ 183,503        |
| Profit on disposal of interests in petroleum<br>and natural gas rights .....                    | 75,585            | 19,185            |
| Investment earnings .....                                                                       | 85,329            | 97,849            |
|                                                                                                 | <u>429,073</u>    | <u>300,537</u>    |
| Expense                                                                                         |                   |                   |
| Operating costs .....                                                                           | 34,611            | 38,221            |
| General and administrative (including directors'<br>fees of \$250 in 1965, \$454 in 1964) ..... | 103,864           | 122,036           |
| Interest .....                                                                                  | 332               | 5,389             |
| Lease and reservation rentals .....                                                             | 37,617            | 25,940            |
| Dry hole costs .....                                                                            | 86,218            | 90,139            |
| Interests in petroleum and natural<br>gas rights surrendered .....                              | 1,735             | 8,861             |
| Provision for depletion and amortization .....                                                  | 99,325            | 74,680            |
| Provision for depreciation .....                                                                | 16,253            | 12,694            |
|                                                                                                 | <u>379,955</u>    | <u>377,960</u>    |
| Net profit (loss) .....                                                                         | 49,118            | (77,423)          |
| Deficit at beginning of period .....                                                            | 180,960           | 103,537           |
| Deficit at end of period .....                                                                  | <u>\$ 131,842</u> | <u>\$ 180,960</u> |

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1965

(With comparative figures for the year ended December 31, 1964)

|                                                                                                                                                                                                                                               | 1965               | 1964               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Funds provided by:                                                                                                                                                                                                                            |                    |                    |
| Profit before provision for depletion and<br>amortization, depreciation, dry hole<br>costs, interests in petroleum and natural<br>gas rights surrendered and profits on<br>disposal of interests in petroleum and<br>natural gas rights ..... | \$ 177,064         | \$ 89,766          |
| Proceeds from disposal of interests in petroleum<br>and natural gas rights .....                                                                                                                                                              | 155,614            | 50,742             |
|                                                                                                                                                                                                                                               | <u>332,678</u>     | <u>140,508</u>     |
| Funds applied to:                                                                                                                                                                                                                             |                    |                    |
| Recoverable deposits .....                                                                                                                                                                                                                    | 37,000             | 12,390             |
| Acquisition of interests in petroleum and<br>natural gas rights .....                                                                                                                                                                         | 250,998            | 425,201            |
| Development costs incurred .....                                                                                                                                                                                                              | 349,288            | 436,680            |
| Acquisition of fixed assets .....                                                                                                                                                                                                             | 50,814             | 110,191            |
|                                                                                                                                                                                                                                               | <u>688,100</u>     | <u>984,462</u>     |
| Decrease in working capital .....                                                                                                                                                                                                             | (355,422)          | (843,954)          |
| Working capital at beginning of period .....                                                                                                                                                                                                  | 2,133,439          | 2,977,393          |
| Working capital at end of period .....                                                                                                                                                                                                        | <u>\$1,778,017</u> | <u>\$2,133,439</u> |







**NUMAC** OIL & GAS LTD.

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COMMERCIAL PRINTERS LTD., EDMONTON  
LITHOGRAPHED IN CANADA